MAURY REGIONAL HOSPITAL

Audited Combined Financial Statements (and Other Information)

Years Ended June 30, 2013 and 2012

PYA
Certified Public Accountants

MAURY REGIONAL HOSPITAL

Audited Combined Financial Statements (and Other Information)

Years Ended June 30, 2013 and 2012

Audited Combined Financial Statements

Supplementary Information

Other Information

PYA
Certified Public Accountants

PERSHING YOAKLEY & ASSOCIATES, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919
p: (865) 673-0844 | f: (865) 673-0173
www.pyapc.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Maury Regional Hospital:

We have audited the accompanying combined financial statements of the business-type activities and aggregate discretely presented component units of Maury Regional Hospital (the Hospital), a part of the primary government of Maury County, Tennessee, as of and for the years ended June 30, 2013 and 2012, and the related notes to the combined financial statements, which collectively comprise the basic financial statements as listed in the table of contents. We also have audited the financial statements presented as supplementary information in the accompanying combining financial statements as of and for the years ended June 30, 2013 and 2012, as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information: Maury Regional Hospital has omitted a Management Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The MD&A, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated October 31, 2013 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Pershing Yoakley & Associates, PC

Knoxville, Tennessee
October 31, 2013

MAURY REGIONAL HOSPITAL

Combined Statements of Net Position

		June 30, 2013		
		Maury Regional Hospital		***Discretely Presented Component Units***
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	28,530,791	$	1,274,249
Certificates of deposit		317,771		-
Investments		756,065		-
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $31,500,000		32,829,322		224,958
Inventories		4,938,545		54,418
Prepaid expenses		2,831,889		128,516
Due from affilites		610,809		-
Other receivables		1,179,979		467
TOTAL CURRENT ASSETS		71,995,171		1,682,608
ASSETS LIMITED AS TO USE		34,067,302		-
EQUITY INTEREST IN JOINT VENTURES		566,463		-
PROPERTY, PLANT AND EQUIPMENT, net		121,209,388		6,124,652
OTHER ASSETS				
Debt issue costs, net of accumulated amortization of $125,327		108,335		-
Other		2,247,620		79,853
TOTAL OTHER ASSETS		2,355,955		79,853
TOTAL ASSETS	$	230,194,279	$	7,887,113

		June 30, 2013	
		Maury Regional Hospital	***Discretely Presented Component Units***
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Current portion of long-term debt		$ 4,774,447	$ 613,737
Accounts payable and accrued expenses		7,435,923	375,777
Accrued salaries and wages		5,777,504	-
Accrued compensated absences		5,576,923	-
Accrued workers' compensation		3,879,657	-
Estimated amounts due to third party payors, net		5,225,755	-
Due to affiliates		-	610,809
Interest payable		61,790	-
	TOTAL CURRENT LIABILITIES	32,731,999	1,600,323
OTHER LONG-TERM LIABILITIES, including estimated amounts due to third party payors and retirement benefit		6,756,476	-
LONG-TERM DEBT			
Bonds payable		16,273,675	-
Other long-term debt		2,843,988	6,042,118
		19,117,663	6,042,118
Less current portion		(4,774,447)	(613,737)
	TOTAL LONG-TERM DEBT	14,343,216	5,428,381
COMMITMENTS AND CONTINGENCIES - Note J			
NET POSITION			
Invested in capital assets, net of related debt		102,200,060	82,534
Unrestricted		74,162,528	775,875
	TOTAL NET POSITION	176,362,588	858,409
	TOTAL LIABILITIES AND NET POSITION	$ 230,194,279	$ 7,887,113

MAURY REGIONAL HOSPITAL

Combined Statements of Net Position

	June 30, 2012	
	Maury Regional Hospital	***Discretely Presented Component Units***
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 29,105,330	$ 127,922
Certificates of deposit	631,538	-
Investments	594,982	-
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $29,700,000	32,944,488	154,299
Inventories	5,201,845	5,377
Prepaid expenses	2,479,404	17,898
Due from affilites	645,192	-
Other receivables	1,276,506	50
TOTAL CURRENT ASSETS	72,879,285	305,546
ASSETS LIMITED AS TO USE	34,063,511	-
PROPERTY, PLANT AND EQUIPMENT, net	121,268,565	591,045
OTHER ASSETS		
Debt issue costs, net of accumulated amortization of $102,839	130,823	-
Other	775,626	-
TOTAL OTHER ASSETS	906,449	-
TOTAL ASSETS	$ 229,117,810	$ 896,591

	June 30, 2012	
	Maury Regional Hospital	***Discretely Presented Component Units***
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 4,624,050	$ 11,093
Accounts payable and accrued expenses	11,086,054	156,697
Accrued salaries and wages	5,162,984	-
Accrued compensated absences	5,003,612	-
Accrued workers' compensation	3,679,238	-
Estimated amounts due to third party payors, net	4,365,750	-
Due to affiliates	-	645,192
Interest payable	63,702	-
TOTAL CURRENT LIABILITIES	33,985,390	812,982
CUMULATIVE LOSSES IN JOINT VENTURE INVESTMENT	320,957	-
OTHER LONG-TERM LIABILITIES, including estimated amounts due to third party payors and retirement benefit	7,932,249	-
LONG-TERM DEBT		
Bonds payable	20,525,913	-
Other long-term debt	474,250	724,033
	21,000,163	724,033
Less current portion	(4,624,050)	(11,093)
TOTAL LONG-TERM DEBT	16,376,113	712,940
COMMITMENTS AND CONTINGENCIES - Note J		
NET POSITION		
Invested in capital assets, net of related debt	100,399,225	(132,988)
Unrestricted	70,103,876	(496,343)
TOTAL NET POSITION	170,503,101	(629,331)
TOTAL LIABILITIES AND NET POSITION	$ 229,117,810	$ 896,591

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Position

	Year Ended June 30, 2013	
	Maury Regional Hospital	*Discretely Presented Component Units*
OPERATING REVENUE		
Net patient service revenue, net of provision for bad debts	$ 277,946,567	$ 2,136,220
Other operating revenue	8,984,335	10,365
TOTAL OPERATING REVENUE	286,930,902	2,146,585
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	166,635,962	524,694
Supplies	51,031,235	52,884
Purchased services	22,159,513	481,579
Professional fees	4,576,013	431,981
Repairs and maintenance	3,238,439	9,884
Utilities	4,875,460	117
Leases	4,394,385	503,076
Insurance	1,400,375	3,886
Other expenses	6,511,732	164,033
Depreciation and amortization	16,793,916	69,789
TOTAL OPERATING EXPENSES	281,617,030	2,241,923
INCOME (LOSS) FROM OPERATIONS	5,313,872	(95,338)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	1,065,578	-
Investment income	285,159	-
Interest expense	(690,225)	(65,505)
Other	(25,667)	-
Equity in joint venture losses	(89,230)	-
TOTAL NONOPERATING REVENUE, NET	545,615	(65,505)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	5,859,487	(160,843)
Capital contributions	-	1,648,583
CHANGE IN NET POSITION	5,859,487	1,487,740
NET POSITION, BEGINNING OF YEAR	170,503,101	(629,331)
NET POSITION, END OF YEAR	$ 176,362,588	$ 858,409

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Position

	Year Ended June 30, 2012	
	Maury Regional Hospital	*Discretely Presented Component Unit*
OPERATING REVENUE		
Net patient service revenue, net of provision for bad debts	$ 271,477,844	$ 1,462,537
Other operating revenue	10,561,777	3,245
TOTAL OPERATING REVENUE	282,039,621	1,465,782
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	155,621,203	477,802
Supplies	50,518,342	46,687
Purchased services	21,220,202	467,754
Professional fees	5,846,446	12,000
Repairs and maintenance	3,136,426	563
Utilities	5,010,260	-
Leases	3,493,142	497,463
Insurance	1,334,066	4,733
Other expenses	6,428,207	58,840
Depreciation and amortization	16,243,200	152,808
TOTAL OPERATING EXPENSES	268,851,494	1,718,650
INCOME (LOSS) FROM OPERATIONS	13,188,127	(252,868)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	856,916	-
Investment income	837,923	-
Interest expense	(781,823)	(72,537)
Other	(78,715)	-
Equity in joint venture losses	(165,957)	-
TOTAL NONOPERATING REVENUE, NET	668,344	(72,537)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	13,856,471	(325,405)
Capital contributions	-	681,792
CHANGE IN NET POSITION	13,856,471	356,387
NET POSITION, BEGINNING OF YEAR	156,646,630	(985,718)
NET POSITION, END OF YEAR	$ 170,503,101	$ (629,331)

MAURY REGIONAL HOSPITAL

Combined Statements of Cash Flows

	Year Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from patients and insurance programs	$ 277,447,562	$ 271,184,472
Payments to vendors for supplies and other	(101,926,468)	(91,488,186)
Payments to and on behalf of employees	(164,949,309)	(154,069,556)
Other receipts	9,039,267	10,056,473
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,611,052	35,683,203
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
Contributions and grants	1,065,578	856,916
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property, plant and equipment	(12,928,319)	(20,216,420)
Proceeds from sale of equipment	216,033	257,777
Proceeds from issuance of long-term debt	-	4,995,000
Payments on long-term debt	(4,865,262)	(8,626,566)
Interest paid on long-term debt	(809,375)	(927,055)
Payment of debt issue costs	-	(42,622)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(18,386,923)	(24,559,886)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received on cash and investments	285,159	687,870
Proceeds from maturities of certificates of deposit	949,309	4,255,839
Purchase of certificates of deposit	(635,542)	(1,263,076)
Purchases of investments	(164,874)	(8,782,141)
Investment in joint venture	(976,650)	(347,714)
Purchase of surgery center	(2,321,648)	-
NET CASH USED IN INVESTING ACTIVITIES	(2,864,246)	(5,449,222)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(574,539)	6,531,011
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,105,330	22,574,319
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 28,530,791	$ 29,105,330

		Year Ended June 30,		
		2013		2012
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Income from operations	$	5,313,872	$	13,188,127
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation and amortization		16,793,916		16,243,200
Estimated provision for uncollectible accounts		34,298,539		31,146,846
Changes in:				
Patient accounts receivable		(34,183,373)		(31,521,499)
Inventories		263,300		(164,753)
Prepaid expenses		(352,485)		987,899
Due from affiliates		34,383		25,000
Other assets		20,549		(530,304)
Accounts payable and accrued expenses		(3,650,131)		4,675,759
Accrued salaries and wages		614,520		1,055,168
Accrued compensated absences		573,311		405,296
Accrued workers' compensation		200,419		(169,744)
Estimated amounts due to third party payors		860,005		199,647
Other long-term liabilities		(1,175,773)		142,561
TOTAL ADJUSTMENTS		14,297,180		22,495,076
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	19,611,052	$	35,683,203
SUPPLEMENTAL INFORMATION:				
Equipment acquired through capital leases	$	3,100,000	$	-

NOTE A--ORGANIZATION

Maury Regional Hospital (the Hospital) is operated and maintained by Maury County, Tennessee, under authority of and in compliance with the provisions of Chapter 125 of the Tennessee Private Acts of 1996. The federal, state, and local governments participated in the cost of constructing and equipping the Hospital under the Hill-Burton Act. For financial reporting purposes, the Hospital is considered an enterprise fund of Maury County, Tennessee (the County).

The Hospital's primary mission is to provide healthcare services to the residents of southern and middle Tennessee, including Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry, Wayne, and Williamson counties. The financial statements present the Hospital and its component units. The Hospital is comprised of the following operating entities:

> *Maury Regional Medical Center (MRMC)*, located in Columbia, Tennessee, has been in operation since 1953 and presently has a 275-bed capacity with 20 beds designated for skilled nursing care, and also includes five medical office buildings in its service area.
>
> *Marshall Medical Center* is an acute care hospital, located in Lewisburg, Tennessee, which was acquired by the Hospital in 1995 and, effective January 1, 2005, was designated a Critical Access Hospital with 25 licensed beds.
>
> *Wayne Medical Center* is an acute care hospital with an 80-bed capacity located in Waynesboro, Tennessee, and has been leased by the Hospital since 1995 (see Note I).

Blended Component Units: The combined financial statements include the following blended component units that provide healthcare services that support the Hospital's mission:

> *Family Health Group (FHG)* is a nonprofit corporation which acquires, owns, operates, and manages physician practices in the Hospital's service area. The Hospital is the sole member of FHG and funds its operating losses.
>
> *Pulmonary and Critical Care Associates, Inc. (PCCA)* was a taxable nonprofit corporation that operated a physician practice in the Hospital's service area. During 2012, PCCA was dissolved and became a division of FHG.
>
> *Maury Regional Ambulatory Care Center, Inc. (the Ambulatory Care Center)* was a nonprofit corporation that provided medical care to non-emergent patients in the Hospital's service area. During 2012, the Ambulatory Care Center was dissolved and became a division of FHG.

NOTE A--ORGANIZATION - Continued

> *Maury Regional Healthcare Foundation (the Foundation)* is a not-for-profit organization formed to coordinate the fundraising activities of the Hospital. The Hospital is the sole member of the Foundation and appoints all Board members. The Hospital also funds all operating expenses of the Foundation.

Discretely Presented Component Units: The discretely presented component units column in the financial statements includes the Hospital's other component units that are joint ventures in which the Hospital has a majority ownership. The Hospital reports its interest in these joint venture using the equity method. Additionally, they are reported in a separate column to emphasize that they are legally separate from the Hospital and include the following entities:

> *Spring Hill Imaging Center, LLC (the Imaging Center)* owns and operates an outpatient center that provides diagnostic and radiology services to patients in the Hospital's service area. The Imaging Center is owned 51% by the Hospital.

> *Vanderbilt-Maury Radiation Oncology, LLC (VMRO)* owns and will operate an outpatient center that provides radiation oncology treatment services to patients in the Hospital's service area. VMRO is owned 60% by the Hospital. Operations at VMRO will begin in fiscal year 2014.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Hospital utilizes the enterprise fund method of accounting. Revenue and expenses are recorded on the accrual basis. In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements.* This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

Recently Issued or Effective Accounting Pronouncements: In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus.* The Statement is effective for financial statement periods beginning after June 15, 2012 and amends Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local*

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governments. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The Hospital adopted the provisions of this Statement during fiscal year 2013. The adoption of this Statement resulted in the restatement of the fiscal year 2012 financial statement to report the Imaging Center as a discretely presented component unit. This restatement had no impact on the net position of the Hospital.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements of GASB Statement No. 34 and other pronouncements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the residual measure and renaming that measure as net position, rather than net assets. The Hospital adopted the provisions of this Statement during fiscal year 2013. The adoption did not have a material impact on the combined financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes reporting standards that reclassify items previously reported as assets or liabilities as deferred inflows or outflows. This Statement will be effective for the Hospital in 2014 and management is currently evaluating its impact on the combined financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 provides guidance for improved accounting and financial reporting by state and local government entities related to pensions. It also replaces the requirements of GASB Statement No. 27 and Statement No. 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement is required for fiscal years beginning after June 15, 2014 with early adoption encouraged. This Statement will be effective for the Hospital in 2015 and management is currently evaluating its impact on the combined financial statements.

Estimates: The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents: Cash and cash equivalents includes cash on hand, deposits in banks and investments with a maturity of three months or less when purchased, excluding any amounts whose use is limited by Board designation.

Inventories: Inventories consist principally of medical and surgical supplies and are reported at the lower of cost or market, with cost determined by the average cost method.

Patient Accounts Receivable: Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third party payer programs. The bad debt allowance is estimated based upon the age of the account, prior experience and any unusual circumstances which affect the collectibility. The Hospital's policy does not require collateral or other security for patient accounts receivable and the Hospital routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Investments and Assets Limited as to Use: Investments and assets limited as to use are reported at estimated fair value based on quoted market prices. Interest, dividends, and gains and losses (realized and unrealized) are included in investment income. The Board has designated certain assets as limited as to use for future capital improvements. Assets limited as to use consists of money market deposits, certificates of deposit, and investments in debt and equity securities.

Property, Plant and Equipment: Property, plant and equipment is reported at cost or fair value at date of gift, if donated. The Hospital has established a capitalization threshold of $1,000. Depreciation is calculated by the straight-line method to allocate the cost of the assets (other than land) over their estimated useful lives which ranges from 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the estimated useful life or the lease term. This amortization is included with depreciation expense and as part of accumulated depreciation in the combined financial statements. Interest costs incurred on applicable borrowings outstanding during the construction period of capital assets is capitalized as part of the cost of acquiring the asset and is amortized on the same basis as the related capital asset. Costs of maintenance and repairs are charged to expense when incurred. The Hospital periodically reviews property, plant, and equipment for indications of potential impairment. Management does not believe any impairment exists as of June 30, 2013.

Intangible Assets: Intangible assets, including goodwill, are amortized over their estimated useful life.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Debt Issue Costs: Debt issue costs are capitalized and amortized using the straight-line method over the life of the related obligation.

Compensated Absences: The Hospital's employees earn paid time off at varying rates depending on years of service. An accrual for paid time off is recorded in the period in which the employee earns the right to the compensation. Employees also earn sick leave benefits based on varying rates depending on years of service and may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire after the age of sixty may convert accumulated sick leave to termination payments. The estimated amount of sick leave which will ultimately be payable as termination payments totals $1,950,000 and $1,755,000 at June 30, 2013 and 2012, respectively, and is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in this estimate, it is at least reasonably possible that management's estimate could change in 2014.

Net Position: Invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* is remaining assets that do not meet the definition of *invested in capital assets, net of related debt.*

Net Patient Service Revenue: Net patient service revenue is reported as services are rendered at estimated net realizable amounts, including estimated retroactive revenue adjustments under reimbursement agreements with third party payers. Estimated settlements under third party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. An estimated provision for bad debts is included in net patient service revenue.

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Operating Activities: The Hospital defines operating activities as reported on the Combined Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including contributions and grants, as well as interest income and interest expense, are considered non-operating revenue and expenses.

Contributions and Grants: Revenues from contributions and grants are recognized when all eligibility requirements are met. Contributions and grants may be restricted for specific operating

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions, if any, are reported after nonoperating revenue and expenses.

Income Taxes: The Hospital meets the Internal Revenue Service definition of a governmental unit and is exempt from federal income taxes.

Subsequent Events: The Hospital evaluated all events or transactions that occurred after June 30, 2013 through October 31, 2013, the date the combined financial statements were available to be issued. Management did not note any subsequent events that required recognition or disclosure in the combined financial statements at June 30, 2013.

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Hospital has agreements with various third party payers that provide for payments to the Hospital at amounts different from established rates. The difference between the rates charged and the estimated payments from third party payers is recorded as a reduction of gross patient service charges. Revenue for patient service charges have been adjusted to the amounts estimated to be receivable under third party payer arrangements. Amounts recorded under these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in 2014. Net patient service revenue for the years ended June 30, 2013 and 2012 decreased by approximately $1,510,000 and $600,000, respectively, due to adjustments of estimates or final settlements of prior periods.

A summary of the payment arrangements with significant third party payers follows:

Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid primarily on a prospective basis. These rates vary according to a patient classification system that is based on clinical diagnosis, procedures utilized and other factors. The Medicare program continues to reimburse certain other services based on a per diem or on a percentage of cost up to predetermined limits. The Hospital also receives additional payments from the Medicare program for providing services to a disproportionate share of Medicaid (TennCare) and other low income patients. Approximately $12,200,000 and $11,600,000 of net patient accounts receivable are due from the Medicare program at June 30, 2013 and 2012, respectively.

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE - Continued

TennCare: The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through several managed care organizations. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts. Approximately $2,900,000 of net patient accounts receivable are from payers under the TennCare program at both June 30, 2013 and 2012.

During 2013 and 2012, the Hospital received additional distributions under the TennCare Essential Access, federal matching and other programs totaling approximately $1,170,000 and $1,080,000, respectively. Future distributions under these programs are not guaranteed. During 2012, the Hospital received and recognized approximately $2,600,000 from Medicare and $760,000 from TennCare related to the implementation and meaningful use of electronic medical records as provided by the Health Information Technology for Economics and Clinical Health (HITECH) Act. These amounts are subject to audit and adjustment. No significant payments were received or recognized in 2013.

Other Payers: The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined per diem amounts.

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue. The estimated direct and indirect cost of providing these services totaled approximately $4,130,000 and $4,230,000 in 2013 and 2012, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue is as follows:

	Year Ended June 30	
	2013	*2012*
Patient service charges	$ 808,604,515	$ 749,173,120
Estimated contractual adjustments	(483,292,686)	(433,796,344)
Estimated provision for bad debts	(34,298,539)	(31,146,846)
Charity care	(13,066,723)	(12,752,086)
	$ 277,946,567	$ 271,477,844

NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE

The carrying amount of deposits and investments included in the Hospital's Combined Statements of Net Position is as follows:

	2013	***2012***
Bank deposits	$ 37,577,938	$ 35,714,504
Investments	26,093,991	28,680,857
	$ 63,671,929	$ 64,395,361

These amounts are included in the combined financial statements as follows:

	2013	***2012***
Cash and cash equivalents	$ 28,530,791	$ 29,105,330
Certificates of deposit	317,771	631,538
Investments	756,065	594,982
Assets limited as to use	34,067,302	34,063,511
	$ 63,671,929	$ 64,395,361

The Hospital holds deposits only in banks participating in the State of Tennessee Collateral Pool, and in banks that provide collateral for all deposits or banks that are members of the Federal Deposit Insurance Corporation (FDIC).

Additionally, the Hospital's deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2013, the Hospital's bank balances for deposits totaled $31,817,368, a majority of which was insured by the FDIC or by the bank's participation in the State of Tennessee's collateral pool. Remaining deposits totaling $1,022,723 are collateralized by securities held by the financial institution and pledged as collateral for the Hospital's deposits.

NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

The estimated fair values and maturities for investments, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital, are as follows:

Investment Type	*Carrying Amount*	*Investment Maturities in Years* *Less than 1*	*1-5*	*N/A*
June 30, 2013				
Mutual funds - fixed income	$ 4,455,354	$ -	$ -	$ 4,455,354
Mutual funds - equity	452,491	-	-	452,491
Government agency bonds	9,813,343	1,508,100	8,305,243	-
Corporate bonds	11,372,803	1,729,705	9,643,098	-
	$ 26,093,991	$ 3,237,805	$ 17,948,341	$ 4,907,845
June 30, 2012				
Mutual funds - fixed income	$ 4,499,441	$ -	$ -	$ 4,499,441
Mutual funds - equity	371,572	-	-	371,572
Government agency bonds	18,129,575	-	18,129,575	-
Corporate bonds	5,680,269	504,950	5,175,319	-
	$ 28,680,857	$ 504,950	$ 23,304,894	$ 4,871,013

Interest Rate Risk: As a means to limiting its exposure to fair value losses by rising interest rates, the Hospital's investment policy limits investment in U.S. treasury securities, government agency bonds or notes, corporate bonds, and municipal bonds to those with maturities of less than five years.

Credit Risk: The Hospital's investment policy restricts investments in corporate bonds and municipal bonds to those with a credit rating of at least BBB and AA, respectively. Mutual fund's underlying investments must meet the same credit ratings as other investments. At June 30, 2013, all the Hospital's investments in corporate bonds were rated at least BBB by Standard and Poor's.

Concentration of Credit Risk: The Hospital's investment policy limits investments in corporate bonds to 50% of total investments with no security issuer exceeding 5% of total investments and municipal bonds to 25% of total investments with no security issuer exceeding 5% of total investments. There is no limit on investments in U.S. treasury securities, government agency bonds or notes. Mutual funds containing corporate bonds should not exceed 50% of total investments and a single mutual fund should not exceed 25% of total investments.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will be able to recover the value of its investment or collateral. All investments are in the Hospital's name at a custodial bank.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment and related accumulated depreciation for the years ended June 30, 2013 and 2012 is as follows:

	Balance July 1, 2012	Additions/ Transfers	Retirements	Balance June 30, 2013
Capital assets being depreciated				
Land improvements	$ 5,556,184	$ 51,154	$ -	$ 5,607,338
Buildings	171,240,236	4,688,613	-	175,928,849
Equipment	148,666,648	12,267,224	(1,238,695)	159,695,177
Total capital assets being depreciated	325,463,068	17,006,991	(1,238,695)	341,231,364
Less accumulated depreciation for:				
Land improvements	3,906,794	177,041	-	4,083,835
Buildings	93,593,430	7,387,125	-	100,980,555
Equipment	119,830,407	8,957,800	(996,995)	127,791,212
Total accumulated depreciation	217,330,631	16,521,966	(996,995)	232,855,602
Total capital assets being depreciated, net	108,132,437	485,025	(241,700)	108,375,762
Capital assets not being depreciated				
Land	7,830,363	-	-	7,830,363
Construction in progress	5,305,765	(302,502)	-	5,003,263
Total capital assets not being depreciated	13,136,128	(302,502)	-	12,833,626
Total capital assets, net	$ 121,268,565	$ 182,523	$ (241,700)	$ 121,209,388

	Balance July 1, 2011	Additions/ Transfers	Retirements	Balance June 30, 2012
Capital assets being depreciated				
Land improvements	$ 5,556,184	$ -	$ -	$ 5,556,184
Buildings	166,967,779	4,272,457	-	171,240,236
Equipment	139,485,204	11,974,181	(2,792,737)	148,666,648
Total capital assets being depreciated	312,009,167	16,246,638	(2,792,737)	325,463,068
Less accumulated depreciation for:				
Land improvements	3,715,609	191,185	-	3,906,794
Buildings	86,295,446	7,297,984	-	93,593,430
Equipment	113,835,039	8,505,596	(2,510,228)	119,830,407
Total accumulated depreciation	203,846,094	15,994,765	(2,510,228)	217,330,631
Total capital assets being depreciated, net	108,163,073	251,873	(282,509)	108,132,437
Capital assets not being depreciated				
Land	6,265,880	1,564,483	-	7,830,363
Construction in progress	2,900,466	2,405,299	-	5,305,765
Total capital assets not being depreciated	9,166,346	3,969,782	-	13,136,128
Total capital assets, net	$ 117,329,419	$ 4,221,655	$ (282,509)	$ 121,268,565

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

During 2013 and 2012, the Hospital capitalized interest expense on construction projects totaling approximately $94,000 and $197,000, respectively. Construction in progress at June 30, 2013 consists primarily of facility renovations and the total estimated costs required to complete construction in progress is approximately $2,600,000.

NOTE F--LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	2013	2012
Bonds Payable:		
Series 2012B, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 1.50% to 2.00%, maturing over a 8-year period, with the final payment due April 1, 2020.	$ 3,430,000	$ 4,605,000
Series 2006B, Maury County General Obligation Bonds issued on behalf of the Hospital, with an interest of 4.00%, maturing over a 7-year period, with the final payment due June 1, 2014.	1,310,000	2,570,000
Series 2006, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 4.125% to 5.00%, maturing over a 15-year period, with the final payment due June 1, 2021.	11,260,000	12,680,000
Series 2005, Maury County General Obligation Bonds rate of 3.50%, with final payment due June 30, 2013.	-	280,000
Total bonds payable	16,000,000	20,135,000
Unamortized gain on refunding	35,871	107,391
Unamortized premiums	237,804	283,522
Total bonds payable, net of unamortized gain and premiums	16,273,675	20,525,913
Other Long-term Debt:		
Note payable with interest rate of 6.29%, maturing January, 2014 and secured by equipment with a net book value of $5,833 at June 30, 2013	6,699	407,650

NOTE F--LONG-TERM DEBT - Continued

		2013		2012
Capital lease obligations - see Note H		2,837,289		66,600
Total other long-term debt		2,843,988		474,250
		19,117,663		21,000,163
Less: current portion		4,774,447		4,624,050
	$	14,343,216	$	16,376,113

The Hospital's bonds payable are general obligation bonds of Maury County, Tennessee. The bonds were issued for the purpose of acquiring property and equipment or for the retirement of previously outstanding bonds and notes and are secured by unlimited ad valorem taxes on all taxable property within the County.

In May 2012, Maury County issued the Series 2012B General Obligation Refunding Bonds in the amount of $4,605,000. The 2012B Bonds were dated May 23, 2012 and were issued to advance refund all of the outstanding Series 2004B Bonds and the portion of the Series 2005 Bonds maturing June 1, 2014 through June 1, 2020. The 2012B Bonds bear interest at rates ranging from 1.5% to 2.0% and have annual maturities ranging from $315,000 to $1,475,000. Interest on the 2012B Bonds is payable semiannually on April 1 and October 1 of each year. The 2012B Bonds are not subject to redemption prior to maturity. The Hospital's advanced refunding resulted in a gain of $107,391 that was deferred and reported as a component of bonds payable. The deferred gain is being recognized into operations using the straight-line method.

The Series 2006 Bonds maturing on or after June 1, 2017 are subject to redemption prior to maturity at the option of the County on June 1, 2016 or thereafter, at a redemption price of par plus accrued interest.

The Hospital's scheduled principal maturities on all long-term debt as of June 30, 2013 (including the capital lease obligations and excluding unamortized premiums and gain on refunding) follows:

Year Ending June 30		*Principal*		*Interest*
2014	$	4,774,447	$	682,235
2015		2,347,428		519,478
2016		2,360,712		429,752
2017		2,381,736		339,710
2018		2,139,665		262,936
2019-2021		4,840,000		379,469
	$	18,843,988	$	2,613,580

NOTE F--LONG-TERM DEBT - Continued

A schedule of changes in long-term debt for the years ended June 30, 2013 and 2012 is as follows:

	Balance July 1, 2012	*Additions/ Amortization*	*Payments/ Maturities*	*Balance June 30, 2013*	*Amounts Due Within One Year*
Bonds payable	$ 20,135,000	$ -	$ (4,135,000)	$ 16,000,000	$ 4,205,000
Unamortized gain on refunding	107,391	-	(71,520)	35,871	-
Unamortized premiums	283,522	-	(45,718)	237,804	-
Other long-term debt	474,250	3,100,000	(730,262)	2,843,988	569,447
	$ 21,000,163	$ 3,100,000	$ (4,982,500)	$ 19,117,663	$ 4,774,447

	Balance July 1, 2011	*Additions/ Amortization*	*Payments/ Maturities*	*Balance June 30, 2012*	*Amounts Due Within One Year*
Bonds payable	$ 23,945,000	$ 4,605,000	$ (8,415,000)	$ 20,135,000	$ 4,135,000
Unamortized gain (loss) on refunding	(106,203)	147,218	66,376	107,391	-
Unamortized premiums	785,871	(108,213)	(394,136)	283,522	-
Other long-term debt	376,724	393,860	(296,334)	474,250	489,050
	$ 25,001,392	$ 5,037,865	$ (9,039,094)	$ 21,000,163	$ 4,624,050

NOTE G--EMPLOYEE BENEFIT PLANS

Defined Benefit Plan: Prior to May 1, 1997, all employees of the Hospital were eligible to participate in the Maury Regional Hospital Retirement Plan (the Plan), a single-employer public retirement system (PERS), accounted for as a separate entity from the Hospital. The purpose of the Plan is to provide retirement, death, and certain other benefits to employees as specified in the Plan.

The actuarial method generally employed to determine contributions to the Plan is the entry age normal actuarial cost method. Although it has not expressed any intention to do so, the Hospital has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

The Plan was amended effective May 1, 1997 to stop accrual of benefit service on April 30, 1997 for participants who made an irrevocable election to participate in the Maury Regional Healthcare System 403(b) Plan on May 1, 1997. As of May 1, 2013, 108 participants are earning future service accruals. Employees hired after May 1, 1997, are not eligible to participate in the Plan.

NOTE G--EMPLOYEE BENEFIT PLANS - Continued

Defined Benefit Plan Funding Policy: Voluntary contributions may not be made by participants. The Hospital's contributions are based on an actuarially determined rate. The Hospital's annual pension cost for 2013 was $849,000. The Hospital's net pension obligation to the Plan for 2013 and 2012 was zero. The annual required contribution for the current year was determined as part of the May 1, 2013, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions used included the following:

- 8.00% investment rate of return
- projected salary increases ranging from 4.0% to 7.5% per year
- amortization method - level dollar amount

Three-Year Trend Information

Fiscal Year	*Annual Required Contribution*	*Percentage Contributed*	*Pension Obligation*
April 30, 2011	752,987	100.00%	-
April 30, 2012	728,000	100.00%	-
April 30, 2013	849,000	100.00%	-

A schedule of funding progress for the Plan follows:

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a % of Covered Payroll (b-a)/c*
May 1, 2011*	40,609,452	43,936,214	3,326,762	92.4%	5,061,006	65.7%
May 1, 2012*	41,072,361	45,825,802	4,753,441	89.6%	5,236,422	90.8%
May 1, 2013*	42,139,707	46,600,942	4,461,235	90.4%	5,103,414	87.4%

*Entry age normal actuarial method utilized for determining the unfunded actuarial liability.

The unfunded actuarial accrued liability is being amortized as a level percentage of covered payroll over 30 years beginning in fiscal 2009.

Defined Contribution Plan: Effective May 1, 1997, the Hospital implemented a defined contribution plan which includes a 403(b) feature and an employer matching provision and covers substantially all hourly and salaried employees. Voluntary contributions may be made by the participants as a percentage of annual compensation not to exceed Internal Revenue Service limits. The Hospital's

NOTE G--EMPLOYEE BENEFIT PLANS - Continued

contribution consists of a base contribution of 3% of annual covered compensation and a matching contribution equal to 50% of the employees' first 5% of annual compensation contributed. The Hospital's total contributions for the years ended June 30, 2013 and 2012 amounted to approximately $4,460,000 and $4,280,000, respectively.

NOTE H--LEASES

Capital Leases: The Hospital leases medical equipment under various capital lease agreements with interest rates ranging from 2.4% to 15.7%. A summary of the leased equipment, which is included in property, plant and equipment, at June 30 is as follows:

	2013	2012
Equipment acquired under capital leases	$ 3,100,000	$ 266,400
Less accumulated amortization	(244,117)	(192,400)
	$ 2,855,883	$ 74,000

The following is a schedule of the future minimum lease payments required under capital leases as of June 30, 2013:

Year Ending June 30,	
2014	$ 627,207
2015	660,716
2016	660,714
2017	660,717
2018	400,798
Total minimum lease payments	3,010,152
Amount representing interest	(172,863)
Present value of minimum lease payments	$ 2,837,289

Operating Leases: The Hospital also rents office space and equipment under various non-cancelable operating lease agreements with varying terms. Rent expense under operating lease agreements totaled approximately $4,390,000 and $3,910,000 for the years ended June 30, 2013 and 2012, respectively.

Future minimum lease commitments for all significant non-cancelable operating leases, excluding discretely presented component units, are as follows:

NOTE H--LEASES - Continued

Year Ending June 30,	
2014	$ 2,510,361
2015	2,443,233
2016	2,038,716
2017	1,721,360
2018	1,539,391
2019-2023	7,911,474
2024-2028	6,673,951
2029-2033	2,971,497
	$ 27,809,983

Leases with Physicians: The Hospital leases office space in its medical office buildings to physicians under non-cancelable operating leases with varying terms. Rental income under these lease agreements totaled approximately $1,440,000 and $1,210,000 for the years ended June 30, 2013 and 2012, respectively. Future minimum lease commitments to the Hospital for all significant non-cancelable operating leases to physicians are as follows:

Year Ending June 30,	
2014	$ 887,676
2015	5,567
2016	2,535
2017	2,535
2018	2,535
	$ 900,848

NOTE I--LEASED HEALTHCARE FACILITIES

Effective July 1, 2005, the Hospital entered into the first of two 5-year renewal options provided under a lease arrangement with the Board of Trustees of Wayne County General Hospital for the operation of several Wayne County healthcare facilities, including the county hospital, nursing home, ambulance service and medical office buildings. The lease also extends to all equipment, improvements, fixtures and related personal property. Effective July 1, 2010, the lease was amended to exclude the operations of the nursing home. The annual lease expense, as amended, is $150,000 for the first year only and an annual capital improvement commitment of $200,000. The amended lease provides for two five-year renewal options which occur automatically unless the Hospital provides notice of its intent to terminate the lease at least 180 days in advance.

NOTE J--COMMITMENTS AND CONTINGENCIES

General Liability Claims: The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant losses to the Hospital.

Malpractice Liability Claims: The Hospital is subject to claims and suits arising in the ordinary course of business from services provided to patients. Losses against the Hospital are limited by the Tennessee Governmental Tort Liability Act to $300,000 for injury or death per person and $700,000 per occurrence. However, claims against healthcare practitioners are not subject to these limits. The Hospital maintains professional liability insurance on a claims made basis with limits of $1,000,000 per occurrence with a retention of $250,000 per claim and a $3,000,000 annual aggregate with a $750,000 annual aggregate retention. The Hospital has estimated and recorded a liability for reported claims totaling approximately $1,020,000 and $640,000 at June 30, 2013 and 2012, respectively. In management's opinion, the Hospital is currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Hospital's results of operations or financial condition. The Hospital has not estimated any liability for incurred but not reported claims.

Workers' Compensation Claims: The Hospital is covered for workers' compensation claims through an insurance policy with a deductible of $500,000 per claim. Management has recorded an accrual for the estimated liability related to claims reported as of June 30, 2013 and 2012. The Hospital has not estimated any liability for incurred but not reported claims.

Healthcare Benefits: The Hospital maintains a partially self-insured healthcare plan to provide reimbursement for covered expenses incurred as a result of illness or injury to covered employees and dependents. Stop-loss insurance is purchased for annual claims per individual exceeding $250,000 in both 2013 and 2012 with a life-time maximum per individual totaling $750,000. The Hospital has estimated and recorded a liability for healthcare claims incurred but not yet reported totaling approximately $2,010,000 and $1,600,000 at June 30, 2013 and 2012, respectively. Employees that retire after attaining age sixty and completing twenty years of service will receive continued coverage under the Hospital's health benefit program until they attain age sixty-five or become eligible for Medicare benefits. The estimated amount of retirement health benefits payable totaled approximately $216,500 and $250,000 at June 30, 2013 and 2012, respectively, and is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in the estimate, it is at least reasonably possible that management's estimate could change in 2014.

NOTE J--COMMITMENTS AND CONTINGENCIES - Continued

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under the provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that any amounts payable related to audits through the Medicare Recovery Audit Contractor program, or similar initiatives, have been estimated and recorded as Other Long-term Liabilities in the combined financial statements and therefore, any additional impact on the combined financial statements will not be significant. However, due to the uncertainties involved, management's estimate could change in the near future.

Healthcare Reform: In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act. The legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required as a result of such legislation over a period of several years. Accordingly, the impact of any future regulations is not determinable.

NOTE K--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that carrying value approximates fair value for the majority of the Hospital's financial assets and liabilities. The estimated fair value of bonds payable, which are general obligations of Maury County, is $16,912,929 and $20,566,553 at June 30, 2013 and 2012, respectively, based on quoted market prices.

Generally accepted accounting principles establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

NOTE K--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Hospital's investments are reported at fair value on a recurring basis based on Level 1 inputs at June 30, 2013 and 2012. The fair value of the Hospital's bonds would be classified as Level 2.

NOTE L--COMPONENT UNIT INFORMATION

FHG leases physician office space in various medical office buildings from MRMC. Rental expense related to these leases totaled approximately $1,165,000 and $778,000 for the years ended June 30, 2013 and 2012, respectively. Additionally, FHG paid MRMC a management fee of approximately, $365,000 each year for the years ended June 30, 2013 and 2012.

MRMC made a capital contribution to the Imaging Center totaling $347,714 for the year ended June 30, 2012. MRMC made a capital contribution to VMRO totaling $976,650 for the year ended June 30, 2013.

NOTE M--SURGERY CENTER ACQUISITION

During May, 2013, the Hospital acquired all of the outstanding units of membership of the Surgery Center of Columbia. The purchase price of $2,321,648 included fixed assets with a fair value of $676,170 and a leasehold interest in the building, and net working capital of $243,928. No other assets were acquired or liabilities were assumed.

As a result of this transaction, the Hospital recorded goodwill totaling $592,950 and other intangible assets related to the Certificate of Need and trademark totaling $808,600. The goodwill and other intangible assets are being amortized for a period of nineteen years.

Supplementary Information

MAURY REGIONAL HOSPITAL

Combining Statement of Net Position

June 30, 2013

	Maury Regional Medical Center	Marshall Medcial Center	Wayne Medical Center	Family Health Group	Maury Regional Healthcare Foundation	Eliminations	Maury Regional Hospital (Blended)	Spring Hill Imaging Center, LLC	Vanderbilt-Maury Radiation Oncology	Discretely Presented Component Units
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	$ 21,912,675	$ 5,613,032	$ 1,222,969	$ (368,306)	$ 150,421		$ 28,530,791	$ 95,183	$ 1,179,066	$ 1,274,249
Certificates of deposit	-	-	317,771	-	-		317,771	-	-	-
Investments	-	-	-	-	756,065		756,065	-	-	-
Patient accounts receivable, net	27,184,764	1,486,300	1,526,535	2,631,723	-		32,829,322	224,958	-	224,958
Inventories	4,232,616	245,716	257,194	203,019	-		4,938,545	6,584	47,834	54,418
Prepaid expenses	2,070,553	167,285	136,984	457,067	-		2,831,889	17,079	111,437	128,516
Due (to) from affilites	613,928	5,739	-	683	-	(9,541)	610,809	(610,809)	-	(610,809)
Other receivables	928,680	91	(33,004)	458,289	-	(174,077)	1,179,979	467	-	467
TOTAL CURRENT ASSETS	56,943,216	7,518,163	3,428,449	3,382,475	906,486	(183,618)	71,995,171	(266,538)	1,338,337	1,071,799
ASSETS LIMITED AS TO USE	34,067,302	-	-	-	-		34,067,302	-	-	-
EQUITY INTEREST IN JOINT VENTURES	11,319,051	-	-	-	-	(10,752,588)	566,463	-	-	-
PROPERTY, PLANT AND EQUIPMENT, net	115,405,169	2,712,481	1,514,981	1,576,757	-		121,209,388	521,257	5,603,395	6,124,652
OTHER ASSETS										
Debt issue costs, net	108,335	-	-	-	-		108,335	-	-	-
Other	2,288,558	-	-	(40,938)	-		2,247,620	-	79,853	79,853
TOTAL OTHER ASSETS	2,396,893	-	-	(40,938)	-	-	2,355,955	-	79,853	79,853
TOTAL ASSETS	$ 220,131,631	$ 10,230,644	$ 4,943,430	$ 4,918,294	$ 906,486	$ (10,936,206)	$ 230,194,279	$ 254,719	$ 7,021,585	$ 7,276,304
LIABILITIES AND NET POSITION										
CURRENT LIABILITIES										
Current portion of long-term debt	$ 4,668,220	$ -	$ 99,528	$ 6,699	$ -		$ 4,774,447	$ 8,459	$ 605,278	$ 613,737
Accounts payable and accrued expenses	6,393,831	430,666	293,679	501,365	-	(183,618)	7,435,923	264,542	111,235	375,777
Accrued salaries and wages	3,924,663	132,450	213,427	1,506,964	-		5,777,504	-	-	-
Accrued compensated absences	4,448,491	330,806	326,737	470,889	-		5,576,923	-	-	-
Accrued workers' compensation	3,611,207	10,783	257,667	-	-		3,879,657	-	-	-
Estimated amounts due to third party payors, net	525,361	4,397,749	302,645	-	-		5,225,755	-	-	-
Interest payable	61,790	-	-	-	-		61,790	-	-	-
TOTAL CURRENT LIABILITIES	23,633,563	5,302,454	1,493,683	2,485,917	-	(183,618)	32,731,999	273,001	716,513	989,514
OTHER LONG-TERM LIABILITIES	6,239,115	175,000	342,361	-	-		6,756,476	-	-	-
LONG-TERM DEBT										
Bonds payable	16,273,675	-	-	-	-		16,273,675	-	-	-
Other long-term debt	2,379,262	-	458,027	6,699	-		2,843,988	700,355	5,341,763	6,042,118
	18,652,937	-	458,027	6,699	-	-	19,117,663	700,355	5,341,763	6,042,118
Less current portion	(4,668,220)	-	(99,528)	(6,699)	-		(4,774,447)	(8,459)	(605,278)	(613,737)
TOTAL LONG-TERM DEBT	13,984,717	-	358,499	-	-	-	14,343,216	691,896	4,736,485	5,428,381
NET POSITION										
Invested in capital assets, net of related debt	96,860,567	2,712,481	1,056,954	1,570,058	-		102,200,060	(179,098)	261,632	82,534
Unrestricted	79,413,669	2,040,709	1,691,933	862,319	906,486	(10,752,588)	74,162,528	(531,080)	1,306,955	775,875
TOTAL NET POSITION	176,274,236	4,753,190	2,748,887	2,432,377	906,486	(10,752,588)	176,362,588	(710,178)	1,568,587	858,409
TOTAL LIABILITIES AND NET POSITION	$ 220,131,631	$ 10,230,644	$ 4,943,430	$ 4,918,294	$ 906,486	$ (10,936,206)	$ 230,194,279	$ 254,719	$ 7,021,585	$ 7,276,304

See Independent Auditor's Report.

MAURY REGIONAL HOSPITAL

Combining Statement of Net Position

June 30, 2012

	Maury Regional Medical Center	Marshall Medcial Center	Wayne Medical Center	Family Health Group	Maury Regional Healthcare Foundation	Eliminations	Maury Regional Hospital (Blended)	Spring Hill Imaging Center, LLC	Vanderbilt-Maury Radiation Oncology	Discretely Presented Component Units
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	$ 23,377,911	$ 3,950,968	$ 1,717,530	$ (102,885)	$ 161,806		$ 29,105,330	$ 127,922	$ -	$ 127,922
Certificates of deposit	-	-	631,538	-	-		631,538	-	-	-
Investments	-	-	-	-	594,982		594,982	-	-	-
Patient accounts receivable, net	27,291,592	2,220,350	1,196,764	2,235,782	-		32,944,488	154,299	-	154,299
Inventories	4,536,568	281,373	182,207	201,697	-		5,201,845	5,377	-	5,377
Prepaid expenses	1,946,301	141,651	168,261	223,191	-		2,479,404	17,898	-	17,898
Due (to) from affilites	643,315	3,853	-	881	-	(2,857)	645,192	(645,192)	-	(645,192)
Other receivables	1,142,325	-	25,977	248,427	-	(140,223)	1,276,506	50	-	50
TOTAL CURRENT ASSETS	58,938,012	6,598,195	3,922,277	2,807,093	756,788	(143,080)	72,879,285	(339,646)	-	(339,646)
ASSETS LIMITED AS TO USE	34,063,511	-	-	-	-		34,063,511	-	-	-
EQUITY INTEREST IN JOINT VENTURES	11,306,916	-	-	-	-	(11,627,873)	(320,957)	-	-	-
PROPERTY, PLANT AND EQUIPMENT, net	115,910,855	2,993,602	573,834	1,790,274	-		121,268,565	591,045	-	591,045
OTHER ASSETS										
Debt issue costs, net	130,823	-	-	-	-		130,823	-	-	-
Other	779,404	-	-	(3,778)	-		775,626	-	-	-
TOTAL OTHER ASSETS	910,227	-	-	(3,778)	-	-	906,449	-	-	-
TOTAL ASSETS	$ 221,129,521	$ 9,591,797	$ 4,496,111	$ 4,593,589	$ 756,788	$ (11,770,953)	$ 228,796,853	$ 251,399	$ -	$ 251,399
LIABILITIES AND NET POSITION										
CURRENT LIABILITIES										
Current portion of long-term debt	$ 4,606,400	$ -	$ -	$ 17,650	$ -		$ 4,624,050	$ 11,093	$ -	$ 11,093
Accounts payable and accrued expenses	10,380,983	268,874	214,481	364,796	-	(143,080)	11,086,054	156,697	-	156,697
Accrued salaries and wages	3,625,329	113,445	176,350	1,247,860	-		5,162,984	-	-	-
Accrued compensated absences	4,323,373	320,719	303,897	55,623	-		5,003,612	-	-	-
Accrued workers' compensation	3,424,433	18,511	236,294	-	-		3,679,238	-	-	-
Estimated amounts due to third party payors, net	340,461	3,838,915	186,374	-	-		4,365,750	-	-	-
Interest payable	63,702	-	-	-	-		63,702	-	-	-
TOTAL CURRENT LIABILITIES	26,764,681	4,560,464	1,117,396	1,685,929	-	(143,080)	33,985,390	167,790	-	167,790
OTHER LONG-TERM LIABILITIES	7,136,734	781,838	13,677	-	-		7,932,249	-	-	-
LONG-TERM DEBT										
Bonds payable	20,525,913	-	-	-	-		20,525,913	-	-	-
Other long-term debt	456,600	-	-	17,650	-		474,250	724,033	-	724,033
	20,982,513	-	-	17,650	-	-	21,000,163	724,033	-	724,033
Less current portion	(4,606,400)	-	-	(17,650)	-		(4,624,050)	(11,093)	-	(11,093)
TOTAL LONG-TERM DEBT	16,376,113	-	-	-	-	-	16,376,113	712,940	-	712,940
NET POSITION										
Invested in capital assets, net of related debt	95,059,165	2,993,602	573,834	1,772,624	-		100,399,225	(132,988)	-	(132,988)
Unrestricted	75,792,828	1,255,893	2,791,204	1,135,036	756,788	(11,627,873)	70,103,876	(496,343)	-	(496,343)
TOTAL NET POSITION	170,851,993	4,249,495	3,365,038	2,907,660	756,788	(11,627,873)	170,503,101	(629,331)	-	(629,331)
TOTAL LIABILITIES AND NET POSITION	$ 221,129,521	$ 9,591,797	$ 4,496,111	$ 4,593,589	$ 756,788	$ (11,770,953)	$ 228,796,853	$ 251,399	$ -	$ 251,399

MAURY REGIONAL HOSPITAL

Combining Statement Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2013

	Maury Regional Medical Center	Marshall Medcial Center	Wayne Medical Center	Family Health Group	Maury Regional Healthcare Foundation	Eliminations	Maury Regional Hospital (Blended)	Spring Hill Imaging Center, LLC	Vanderbilt-Maury Radiation Oncology	Discretely Presented Component Units
OPERATING REVENUE										
Net patient service revenue, net of provision for bad debts	$ 231,704,183	$ 13,892,332	$ 9,834,371	$ 22,515,681	$ -	$ -	$ 277,946,567	$ 2,136,220	$ -	$ 2,136,220
Other operating revenue	9,744,652	217,514	133,815	4,044,865	-	(5,156,511)	8,984,335	10,365	-	10,365
TOTAL OPERATING REVENUE	241,448,835	14,109,846	9,968,186	26,560,546	-	(5,156,511)	286,930,902	2,146,585	-	2,146,585
OPERATING EXPENSES										
Salaries, employee benefits and contract labor	123,527,445	7,898,363	6,291,071	28,916,756	149,741	(147,414)	166,635,962	504,324	20,370	524,694
Supplies	47,637,172	1,103,416	1,043,681	1,246,538	3,386	(2,958)	51,031,235	52,884	-	52,884
Purchased services	17,439,010	1,838,073	1,248,169	5,482,834	11,756	(3,860,329)	22,159,513	479,734	1,845	481,579
Professional fees	12,610,455	546,568	577,410	(9,158,420)	-	-	4,576,013	431,981	-	431,981
Repairs and maintenance	2,485,775	263,039	128,799	360,826	-	-	3,238,439	9,509	375	9,884
Utilities	4,096,303	295,698	305,870	177,589	-	-	4,875,460	-	117	117
Leases	3,667,063	204,577	336,701	1,493,077	10,594	(1,317,627)	4,394,385	503,076	-	503,076
Insurance	776,379	82,522	73,793	467,681	-	-	1,400,375	3,886	-	3,886
Other expenses	4,964,073	271,937	300,242	628,737	358,851	(12,108)	6,511,732	106,744	57,289	164,033
Depreciation and amortization	15,059,377	752,582	289,147	692,810	-	-	16,793,916	69,789	-	69,789
TOTAL OPERATING EXPENSES	232,263,052	13,256,775	10,594,883	30,308,428	534,328	(5,340,436)	281,617,030	2,161,927	79,996	2,241,923
INCOME (LOSS) FROM OPERATIONS	9,185,783	853,071	(626,697)	(3,747,882)	(534,328)	183,925	5,313,872	(15,342)	(79,996)	(95,338)
NONOPERATING REVENUE (EXPENSES)										
Contributions and grants	605,182	38,199	-	-	606,122	(183,925)	1,065,578	-	-	-
Investment income	201,279	22,412	16,353	-	77,904	(32,789)	285,159	-	-	-
Interest expense	(715,429)	-	(6,823)	(762)	-	32,789	(690,225)	(65,505)	-	(65,505)
Other	(16,696)	(9,987)	1,016	-	-	-	(25,667)	-	-	-
Equity in joint venture losses	(3,837,876)	-	-	-	-	3,748,646	(89,230)	-	-	-
TOTAL NONOPERATING REVENUE, NET	(3,763,540)	50,624	10,546	(762)	684,026	3,564,721	545,615	(65,505)	-	(65,505)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	5,422,243	903,695	(616,151)	(3,748,644)	149,698	3,748,646	5,859,487	(80,847)	(79,996)	(160,843)
Capital contributions	-	(400,000)	-	3,273,361	-	(2,873,361)	-	-	1,648,583	1,648,583
CHANGE IN NET POSITION	5,422,243	503,695	(616,151)	(475,283)	149,698	875,285	5,859,487	(80,847)	1,568,587	1,487,740
NET POSITION, BEGINNING OF YEAR	170,851,993	4,249,495	3,365,038	2,907,660	756,788	(11,627,873)	170,503,101	(629,331)	-	(629,331)
NET POSITION, END OF YEAR	$ 176,274,236	$ 4,753,190	$ 2,748,887	$ 2,432,377	$ 906,486	$ (10,752,588)	$ 176,362,588	$ (710,178)	$ 1,568,587	$ 858,409

MAURY REGIONAL HOSPITAL

Combining Statement Revenue, Expenses and Changes in Net Position

Year Ended June 30, 2012

	Maury Regional Medical Center	*Marshall Medcial Center*	*Wayne Medical Center*	*Family Health Group*	*Pulmonary & Critical Care Associates, Inc.*	*Maury Regional Ambulatory Care Center*	*Maury Regional Healthcare Foundation*	*Eliminations*	*Maury Regional Hospital (Blended)*	*Discretely Presented Component Unit**
OPERATING REVENUE										
Net patient service revenue, net of provision for bad debts	$ 228,173,440	$ 13,492,549	$ 11,134,696	$ 16,376,944	$ 842,877	$ 1,457,338	$ -	$ -	$ 271,477,844	$ 1,462,537
Other operating revenue	11,408,465	183,107	85,437	3,221,093	3,715	163,886	-	(4,503,926)	10,561,777	3,245
TOTAL OPERATING REVENUE	239,581,905	13,675,656	11,220,133	19,598,037	846,592	1,621,224	-	(4,503,926)	282,039,621	1,465,782
OPERATING EXPENSES										
Salaries, employee benefits and contract labor	119,475,336	7,885,138	5,757,725	19,323,954	1,109,540	2,073,624	143,348	(147,462)	155,621,203	477,802
Supplies	47,479,197	1,179,072	831,360	922,414	9,874	99,425	6,547	(9,547)	50,518,342	46,687
Purchased services	17,182,696	1,672,393	1,520,332	3,573,763	232,372	365,977	22,064	(3,349,395)	21,220,202	467,754
Professional fees	9,729,975	456,823	523,512	(4,868,020)	-	4,156	-	-	5,846,446	12,000
Repairs and maintenance	2,555,173	182,687	153,319	245,247	-	-	-	-	3,136,426	563
Utilities	4,240,838	306,943	303,727	150,490	7,267	216	179	600	5,010,260	-
Leases	3,012,131	224,171	331,748	1,087,337	41,445	102,225	10,222	(1,316,137)	3,493,142	497,463
Insurance	891,122	74,804	57,535	281,382	27,666	1,557	-	-	1,334,066	4,733
Other expenses	4,853,136	244,273	251,416	578,652	24,122	10,018	349,069	117,521	6,428,207	58,840
Depreciation and amortization	14,677,969	773,757	254,017	521,549	11,257	4,651	-	-	16,243,200	152,808
TOTAL OPERATING EXPENSES	224,097,573	13,000,061	9,984,691	21,816,768	1,463,543	2,661,849	531,429	(4,704,420)	268,851,494	1,718,650
INCOME (LOSS) FROM OPERATIONS	15,484,332	675,595	1,235,442	(2,218,731)	(616,951)	(1,040,625)	(531,429)	200,494	13,188,127	(252,868)
NONOPERATING REVENUE (EXPENSES)										
Contributions and grants	391,490	28,900	-	-	-	-	637,024	(200,498)	856,916	-
Investment income	937,456	15,080	13,906	-	-	-	20,917	(149,436)	837,923	-
Interest expense	(748,497)	(7,814)	(37,617)	(47,069)	(1,963)	(88,299)	-	149,436	(781,823)	(72,537)
Other	(79,822)	5,525	(4,308)	(110)	-	-	-	-	(78,715)	-
Equity in joint venture losses	(4,179,704)	-	-	-	-	-	-	4,013,747	(165,957)	-
TOTAL NONOPERATING REVENUE, NET	(3,679,077)	41,691	(28,019)	(47,179)	(1,963)	(88,299)	657,941	3,813,249	668,344	(72,537)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	11,805,255	717,286	1,207,423	(2,265,910)	(618,914)	(1,128,924)	126,512	4,013,743	13,856,471	(325,405)
Transfers	-			(8,983,717)	(7,162)	8,990,879			-	
Capital contributions	-	-	-	-	450,000	-	-	(450,000)	-	681,792
CHANGE IN NET POSITION	11,805,255	717,286	1,207,423	(11,249,627)	(176,076)	7,861,955	126,512	3,563,743	13,856,471	356,387
NET POSITION, BEGINNING OF YEAR	159,046,738	3,532,209	2,157,615	14,157,287	176,076	(7,861,955)	630,276	(15,191,616)	156,646,630	(985,718)
NET POSITION, END OF YEAR	$ 170,851,993	$ 4,249,495	$ 3,365,038	$ 2,907,660	$ -	$ -	$ 756,788	$(11,627,873)	$ 170,503,101	$ (629,331)

*Spring Hill Imaging Center, LLC

Other Information

PYA
Certified Public Accountants

PERSHING YOAKLEY & ASSOCIATES, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919
p: (865) 673-0844 | f: (865) 673-0173
www.pyapc.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Maury Regional Hospital:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Maury Regional Hospital (the Hospital) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 31, 2013